NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
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CONTACT: Mitchel Benson
(916) 653-4052

CALIFORNIA TREASURER ANGELIDES ATTACKS GOVERNOR'S BUDGET AS A "BROKEN PROMISE" TO THE PEOPLE OF CALIFORNIA

SACRAMENTO, CA – California State Treasurer Phil Angelides had the following comments in response to Governor Schwarzenegger signing the 2004-05 budget bill today:

"It is now official. With his signature on this budget, Governor Schwarzenegger has broken his word to the people of California to end the state's crazy deficit spending and balance the budget. He calls his budget a "win for the people." But it is not a win for the people who dream of sending their kids to college. It is not a win for the people who will pay more to provide health insurance for their children. It is not a win for the people of California – all of whom are being saddled with billions of dollars of new debt for years to come.

"With his first and most important promise broken, the Governor is now making a new promise: to blow up the boxes of government. But so far, all he has done is box the people of California into years of paying for his debts and deficits as far as the eye can see."

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OFFICE OF THE TREASURER
P. O. BOX 942809
SACRAMENTO, CA 94209-0001

M E M O R A N D U M

Date: July 31, 2004

To: California reporters and editorial boards

From: Phil Angelides
State Treasurer

Subject: **The not-so-fantastic 2004-05 budget: California loses an opportunity to face its future**

With its innovative private sector, high quality of life and diverse and growing population, California has both unmatched promise and big problems to solve. The Schwarzenegger budget is a lost opportunity for the State to put its protracted fiscal crisis behind it so that it can begin addressing California's future. It is a budget built on broken promises – one that breaks the Governor's promises of adopting a balanced budget and fairly protecting critical investments in education and health care.

Despite the strongly expressed warnings of fiscal experts, economists, the nonpartisan Legislative Analyst and this office, the 2004-05 budget continues the state's massive deficit spending. It again pushes the fiscal crisis down the road and forces California in the years ahead to focus on and argue about how to pay the debts of the past, not about how to better compete in the global marketplace, better educate our children, and build better communities.

The 2004-05 California budget is "balanced" in the same way that President Bush and Congress have "balanced" the federal books: through enormous debt. The budget relies on estimated $7.5 billion in new borrowing and deferrals. It leaves the State with an enormous future burden—$20 billion in accumulated debt and deferrals from budget deficits past and present. The Legislative Analyst's Office (LAO) had already projected in May that the state would be left with a projected $8 billion structural deficit in 2006-07 and beyond, the same size as it projected in September 2003, just before the Governor took office. The budget agreements made by the Governor since the May Revision will now likely push that deficit up toward $10 billion, despite an improving economy.

The budget fails the tests not only of fiscal responsibility, but also of fairness and investment in the future. It raises fees on community college and university students, forces California's working poor to pay higher premiums for their health insurance, but asks nothing of the most fortunate. Although the Bush tax cuts give $12 billion this year to the top 1 percent of Californians alone, this budget does not even temporarily restore income-tax rates on the wealthiest Californians to the levels imposed by Governors Reagan and Wilson – revenue needed to reduce borrowing and sustain critical investments in people and infrastructure. Thanks to a statewide outcry from students, faculty, business leaders, citizens, and public officials, the Legislature refused to adopt some of the worst cuts in higher education advocated by the Governor. But much damage has already been done, as thousands of eligible students earlier turned away from the universities have had their lives disrupted and have been forced to make other arrangements that will take many of them to four-year colleges out of state.

The 2004-05 budget uses many of the same borrowing tricks adopted in the last two years to avoid a reckoning with the State's deficit spending. Among other things, it:

- Uses $2.7 billion of Economic Recovery Bonds (ERBs) to cover deficits in 2003-04 and 2004-05. These Proposition 57 bonds were promoted to the voters by the Governor as necessary to pay the past debts but are being used to cover the State's on-going operational deficit.

- Depends on a legally questionable $929 million pension obligation bond to make part of the State's 2004-05 pension contribution for state workers. The bond will be paid off by taxpayers over 20 years.

- Creates a $966 million future "settle-up" obligation for schools and community colleges by funding education below the Proposition 98 guarantee. The debt will be repaid beginning in 2006-07. The budget leaves the State with a cumulative Proposition 98 "credit card" debt to schools and community colleges of about $3.8 billion.

- Borrows $1.207 billion of Proposition 42 transportation revenue to plug a hole in the General Fund. This loan is slated to be repaid in 2007-08.

- Increases the amount of Vehicle License Fee backfill owed to local governments by $475 million, leaving a total of $1.2 billion to be repaid in 2006-07.

In addition to its direct borrowing, the budget comes with a host of new promises, made by the Governor in a series of deals with various interest groups, to increase state spending within the next two years. These IOUs will compound the difficulty of addressing the structural budget deficit that the new budget fails to close. The State will have an operating deficit that will grow toward $10 billion in 2006-07 as the State struggles to pay the Governor's IOUs, among them $1.3 billion annually to local governments and promised spending increases for the universities. On top of that, the Governor, in his deal with prison guards, has made concessions on layoffs and supervisors' assignments that will make it more difficult to achieve government efficiencies in future years.

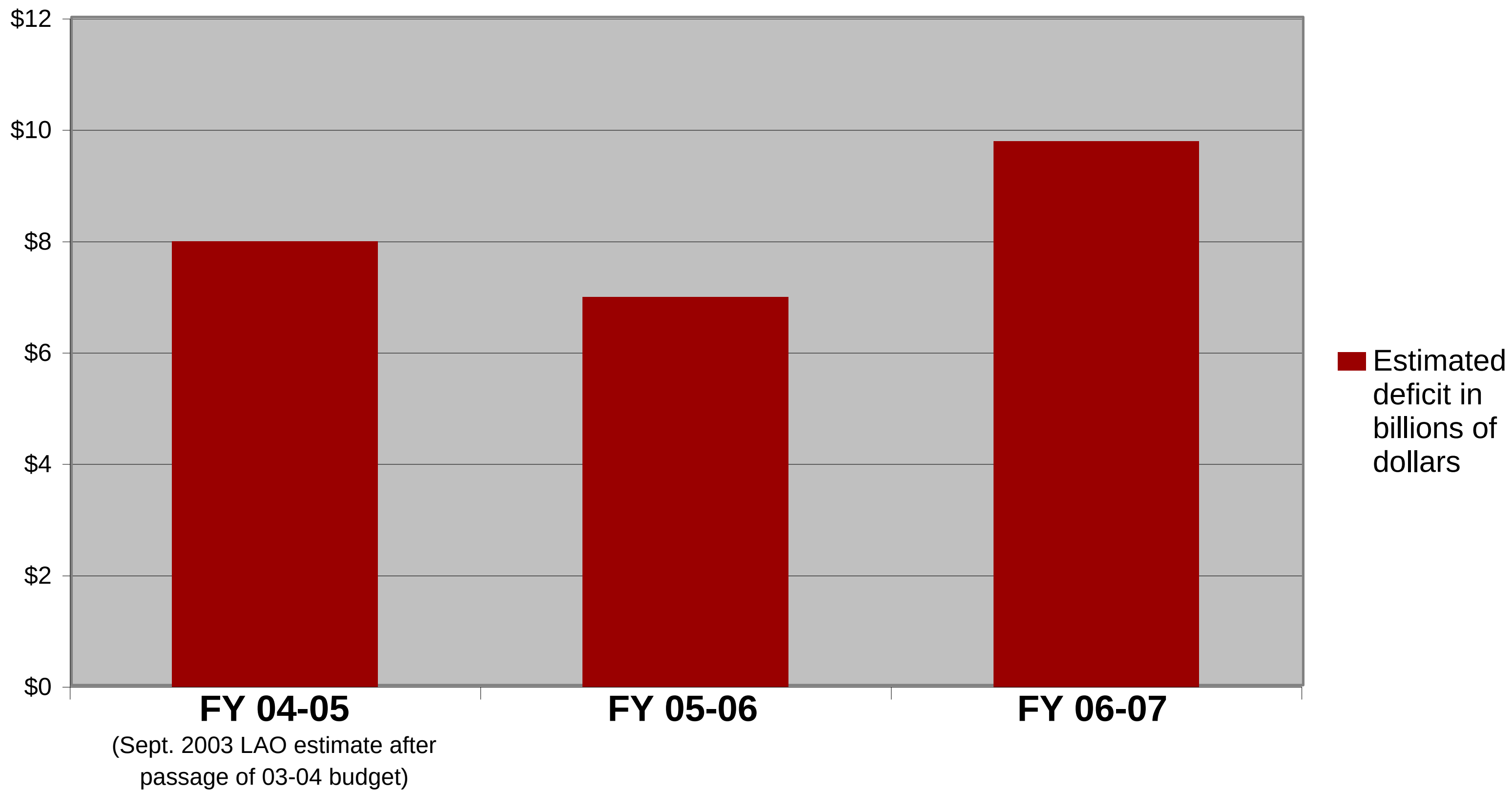
Unfortunately, the State will not be able to use the one new revenue source available to it to help close these deficits. The new fees on existing slot machines in Indian casinos will instead be used over the next 18 years to fund yet another borrowing, a one-time $1.2 billion bond that the Governor will use in 2004-05 to repay a loan from the Traffic Congestion Relief Fund.

California has seen the appearance of action. The reality is not so fantastic. At every turn, whether the issue was financing local government, managing the prisons, or restoring the State to a sustainable and fair fiscal balance, the Governor opted for easy short-term fixes instead of the fundamental reforms California needs. That is the biggest lost opportunity, and broken promise, of all.

Attachments

Governor Schwarzenegger's Not-So-Fantastic 2004-05 Budget

Plan Leaves Continuing Deficits



CALIFORNIA'S CREDIT CARD STATEMENT

BILLED TO:
The People of California

CHARGED BY:
The Honorable Arnold Schwarzenegger
Governor of the State of California
State Capitol Building
Sacramento, CA 95814

New Charges:	
Economic Recovery Bonds (to cover 2003-04 and 2004-05 deficits)	$2.7 billion
Legally Questionable Pension Obligation Bonds	$949 million
Future Obligations to Schools and Community Colleges	$966 million
Borrowed Proposition 42 Transportation Funds	$1.2 billion
Increased Vehicle License Fee Backfill Owed to Local Governments	$475 million
Additional and Miscellaneous Borrowing	$1.2 billion
Subtotal:	**$7.5 billion**

Previous Balance: **$12.5 billion**

Total Due (Accumulated Debt): $20 billion